Dynamics Of Behavioural Investment Decisions- An Analytical Approach Towards Investor's Behaviour In The Indian Stock Market

Synopsis

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INTRODUCTION

To invest is to allocate money in the expectation of some return in the future. Investment is an essential part of wealth-creation, which helps you beat inflation to fulfil your financial goals and also stabilise your financial future. Instead of letting money lie idle in your bank accounts, you can invest in different avenues like stocks, equities, mutual funds, fixed deposit, or more. Investment decisions are made by investors and investment managers. Individuals and institutions make investments for a variety of reasons such as meeting shortages in income, earning return, saving up for retirement, repayment of loan, acquiring an asset in future etc.

Investors commonly perform investment analysis by making use of fundamental analysis, technical analysis and gut feel.

BEHAVIOURAL FINANCE

The theory of rationality based on two assumptions, which are- "A rule of rationality" and "an act of rationality." In the situation of a rule of rationality, an individual adopts the mode of behaviour that maximizes the expected utility whereas in case of an act of rationality investor chooses to act in such way that yields maximum utility. Investors make choices that maximize the benefits and minimize the cost. The theory of bounded rationality explain that individuals are not always able to obtain all the relevant information, which is required to make possible decisions. Bounded rationality comprehensively concerned with the manner actual decision-making process impact the decisions that arrived.

People are either partly rational or irrational in their decisions. This theory showed that individuals have biases and cognitive limitations, which forbid them from achieving full rationality at the time of decision-making. When it comes to individual investment decision making, it is essential to consider that a certain degree of uncertainty and risk is associated with each investment decision choice.

The foundation of traditional finance is associated with the modern portfolio theory (MPT) and the efficient-market hypothesis (EMH). As per this hypothesis, investors have access to market information and prices of assets and also investors considered to be rational. Even though the discipline of modern finance has grown progressively, it is still difficult to explain on the scientific grounds that why people behave non- rationally while dealing in money.

While traditional finance assumes people rationalize and enhance their financial decisions, behaviour finance includes the relevance of what investors should do and blend the basics of traditional finance with what people do in terms of their investment decisions.

The behavioural finance approach replaces the traditional rationality hypothesis and asserting that behavioural biases influence individuals.

LITERATURE REVIEWS

The review of literature is integral to the success of academic research. The following past studies have been taken into consideration to find out research gap and justify the need of proposed study. Further, literature review has been categorised into two parts i.e., national reviews and international review of literature.

NATIONAL REVIEWS:

The papers published in Indian journals are considered as national review of literature.

TABLE 1: National Reviews

S.NO.	YEAR	AUTHOR/S	TOPIC	OBJECTIVES	FINDINGS
1.	2020	Hamidon, T., & Kehelwalatenna, S.	The Influence of Behavioural Finance Factors and the Moderating Effects of Contextual and Demographic Factors on Individual Investor's Investment Performance	The objective of the study was to examine the irrationality in behavioural finance factors and to know the individual investor's existing knowledge of the stock market as a demographic factor affect individual investor's investment performance.	The study revealed that market information and past stock trends as market factors have a significant bearing on investment decision which ultimately affect Investment performance, while the aggregate effect of behavioural finance factor upholds a significant impact on investors' investment performance.
2.	2020	Tin, O. S., & Hii, J. W. S.	The Relationship Between Heuristics Behaviour and Investment Performance on Debt Securities in Johor	The objective of this study was to examine the relationship between the dimensions of the heuristic behaviours (anchoring, availability, overconfidence & representativeness)	The findings shown that availability and representativeness have significant relationship with the investment performance of debt securities while the anchoring and overconfidence have no significant

				and investment performance on debt securities.	relationship with the investment performance of debt securities.
3.	2020	Ahmad, M., & Shah, S. Z. A.	Overconfidence heuristic- driven bias in investment decision making and performance: mediating effects of risk perception and moderating effects of financial literacy	To know the impact of overconfidence on the decisions & performance of individual investors trading on the Pakistan Stock Exchange and to know the mediating role of risk perception and moderating role of financial literacy.	The study revealed that risk perception fully mediates the relationships between the overconfidence heuristic on the one hand, and investment decisions & performance on the other. At the same time, financial literacy appears to moderate these relationships.
4.	2018	Raut.K.R, Das.N, Mishra.R	Behaviour of Individual Investors in Stock Market Trading: Evidence from India	This study explored the factors that underpin individual investor's investment decision-making behaviour to find whether the Indian financial market is efficient and investors make rational decisions.	The result indicates that the investors are significantly influenced by herding, information cascades, anchoring, representativeness and overconfidence while contagion shows the insignificant result. The study also provided strong evidence of investors' irrationality as well as inefficiency of the financial market.
5.	2018	Pahlevi, R.W, Oktaviani, I. I.	Determinants of Individual Investor Behaviour in Stock Investment Decisions	The main objective of this study was to find the determinants which influence investors while making investment decisions.	It is found that the attitude, subjective norm, perception of behaviour control, overconfidence, excessive optimism, herd behaviour has positive effect on investors' intention in investing, and there was no influence between the psychology of risk to investor attitude in investing.
6.	2017	Seetharaman, A., Niranjan, I., Patwa, N., & Kejriwal, A.	A study of the factors affecting the choice of investment portfolio by	This study aims to gain insights & information into the factors that affect investment planners,	The study revealed that the investment objective and asset familiarity exert an impact on investor

			individual investors in Singapore.	financial advisers and individuals need to consider improving their choice of the portfolio and its performance.	behaviour, with asset familiarity having the strongest impact. Investor behaviour, in turn, influences the choice of a portfolio of the investors.

INTERNATIONAL REVIEWS:

The papers published in international journals are considered as international review of literature.

TABLE 2: International Review

S.NO.	YEAR	AUTHOR/S	TOPIC	OBJECTIVES	FINDINGS
1.	2020	Mahmood, T., Ayyub, R. M., Imran, M., Naeem, S., & Abbas, W.	The Behavioural Analysis and Financial Performance of Individual Investors at Pakistan Stock Exchange	This study examines the impact of behavioural factors over investment decision making and their performance.	The findings of the study revealed that prospect and herding have positive impact on investment performance whereas heuristic and market variable have negative impact on investment performance & financial literacy enhanced the relationship between behavioural factors and investment decision.
2.	2019	Madaan, G., & Singh, S.	An Analysis of Behavioural Biases in Investment Decision-Making	The objective of the study was to assess the impact of behavioural biases in investment decision-making in National Stock Exchange.	The study revealed that overconfidence and herding bias have significant positive impact on investment decision and the individual investors have limited knowledge.
3.	2019	Sadeq J. Abul	Factors influencing Individual Investor Behaviour: Evidence from the Kuwait Stock Exchange	This study investigates the effects of psychological factors on investor behaviour regarding the Kuwait Stock Exchange.	It is found that herd behaviour, optimism and psychology risk have an impact on the individual investors' decisions.
4.	2019	Hemalatha, S.	Factors Influencing Investment Decision of the Individual	This study aims to find out attitude differences in the perception of individual	It is found that the factors of selection of investment varies according to gender, age, occupation,

			Related to Selected Individual Investors in Chennai City.	investors on factors influencing investment decision on the basis demographical profile of the individuals.	usage of internet, level of computer knowledge, usage of online trading.
5.	2019	Osamor, I. P., Anene, E. C.	Relationship Between Stock Market Conditions and Investors Reactions: Evidence from Nigerian Stock Market	The study aims to know the relationship between stock market conditions and investors behaviour.	The study showed that there is a relationship between stock market conditions and investors' reactions in Nigerian stock market. This implied that when the different market conditions occurred, they influenced investors' decision on whether to buy, sell or hold on to a stock.
6.	2018	Jaiyeoba, H. B., Adewale, A. A., Haron, R., & Ismail, C. M. H. C.	Investment decision behaviour of the Malaysian retail investors and fund managers: A qualitative inquiry	Main objective of this study was to know how investors mitigate the influence of emotions and psychological biases and challenges faced during investment decisions?	The results revealed that the investment decision processes of fund managers are more comprehensive than those of retail investors. Although both fund managers and retail investors acknowledge the influence of psychological biases on their investment decisions.
7.	2018	Chadha, A., Mehta, C., Lal, D., & Lonare	Impact of Behavioural Factors on Investment Decisions Making	The objective of this study was to determine the factors that influence the individual investment decision which includes demographic factors, psychological factors, macroeconomic factors & analytical factors and also ascertain their impact on the	The study revealed that, aggressive Investor willing to take risk was dependent on short-term capital gain, minimizing risk, firm′s reputation & foreign operations and Conservative Investor willing to take minimal risk was dependent on occupation, amount invested in stock yearly, Short term capital gain, minimizing risk

				investor's aggression.	and friend and co-workers′ opinion.
8.	2017	Subramaniam, A., & Velnampy, T.	The Role of Behavioural Factors in the Investment Decisions of Household Investors	The objective of the study was to identify the behavioural finance based factors which influence the investment decisions of household investors in the Northern Province of Sri Lanka.	The current study concluded that Representativeness bias, Overconfidence bias, Availability bias, Loss Aversion bias, Regret Aversion bias and Herding influence the investment decisions of household investors.
9.	2017	ul Abdin, S. Z., Farooq, O., Sultana, N., & Farooq, M.	The impact of heuristics on investment decision and performance: Exploring multiple mediation mechanism	This paper examines mediated links through fundamental and technical stock market anomalies.	It is found that one mechanism, fundamental anomalies mediate the heuristics–investment performance link, and technical anomalies are not significant mediators of impact on investment performance of individuals.
10.	2016	Prithiviraj, S. Gokul. G	Investment Behaviour of Individual Investors in Coimbatore City	To determine the factors of individual investor's behaviour in Indian financial market & to find the information seeking behaviour of Investors and their effectiveness and to find out the risk tolerance level of individual investors with respect to demographic variables.	The study concluded that average level of investment behaviour was found among the respondents of Coimbatore and the investment behaviour was found to be better at the time of investment than before investment and post investment & the demographic profile like gender, age, marital status, education, occupation etc have significantly influence the investment behaviour.
11.	2015	Thomas, S., & Sebastian, S.	Analysis of changes in overconfidence bias of stock market traders in Indian stock market.	To examine the changes in overconfidence bias of investors in the Indian Stock Market.	It is found that changes in the level of education, experience in the stock market and mode of trading can change the level of overconfidence of stock market traders.

					The factors like gender, profession, annual income, portfolio size doesn't affect the level of overconfidence of stock market traders.
12.	2015	Islamoğlu, M., Apan, M., & Ayvali, A.	Determination of Factors Affecting Individual Investor Behaviours: A Study on Bankers	The aim of this study was to investigate the factors that influence individual investor behaviour.	The study showed that while investors in Bartin city decide on investment, they are affected by several factors such as level of income, past investment experiences, expert & other investors' opinions and financial stability & they take steps to reduce risks by having alternative plans for their investment and they have high self-esteem.
13.	2014	Rakesh, H. M	A study on individual investors behaviour in stock markets of India	To study the investor's behaviour in stock market of India and to study the factors affecting the different types of investors.	The study revealed that the respondents assimilate the objectives of saving, the factors influencing the saving and the sources of information for decision making.
14.	2014	Waweru, N. M., Mwangi, G. G., & Parkinson, J. M.	Behavioural factors influencing investment decisions in the Kenyan property market	The main objective of this study was to know the perceptions of estate agents regarding the decisions making behaviour of property investors in Kenya using behavioural finance theories.	The results indicate that property price changes and property market information have a very high impact on property investment decisions. Most investors search for property information through previous experience and through real estate firms.
15.	2012	Shanmugham, R., & Ramya, K.	Impact of Social Factors on Individual Investors' Trading Behaviour	This study aims to analyse the influence of social factors on the attitude and intention of individuals trading behaviour.	Social interactions and media were found to have positive relationship with attitude towards trading whereas the factor internet does not seem to influence

					the respondents' attitude towards trading. There also exists a strong positive correlation between attitude, perceived behavioural control and intention towards trading whereas subjective norms found to be negatively related with intention towards trading.

RESEARCH GAP

From the review of previous research studies on behavioural finance of investors, the researcher came to know that only few studies have been done in this area in India. Furthermore, the studies which have been conducted in Indian context have addressed only few behavioural biases. Therefore, to bridge these gaps researcher will attempt to study effect of various behavioural factors on investment decision making process of individual investors.

NEED OF THE STUDY

Investment is an essential part of wealth creation, which helps defeat inflation to meet financial goals and also stabilizes financial future and Investors are the spines or pillars of capital market.

- This study will help researcher to understand distinctive behaviour of investors in the Capital market.
- With the help of this study, the researcher will estimate the degree of uncertainty and risk associated with each investment decision of individual investors.
- The need of study arises so as to know the result of individual investor's decision making in Indian Stock Market, by determining various characteristics (like demographic, financial and risk exposure approach etc). This will give a unique and selected benchmark for the present and future prospects of the behavioural approach of stock investors.

OBJECTIVES OF THE STUDY

The study will be conducted with a view to achieve following objectives:

- To identify the behavioural factors influencing the investment decisions of investors in the Indian Stock Market.

- To explore the impact of behavioural bias and rational factors on the investment decision of individual investors in Indian Stock Market.
- To analyse the impact of Pandemic COVID19 on the individual investor investment behaviour and their attitude towards risk.
- To find out the level of information and attitude differences in the perception of individual investors on factors influencing investment decision on the basis of demographic profile.
- To examine whether demographic characteristics and financial characteristics of investors determine their risk seeking behaviour.

HYPOTHESES

H_{01}: Demographic attributes (such as age, gender, marital status) and Financial attributes (such as income level, savings and investment) have no significant impact on investors' risk behaviour.

H_{02}: There is no significant impact of rational factors (such as price changes of stock, financial statement, return on equity and stock indexes) on the investment decision of individual investors. Researcher may frame more Hypotheses during the course of study to make study more relevant.

RESEARCH METHODOLOGY

To accomplish the objectives of the study, the following research methodology will be used:

RESEARCH DESIGN: Descriptive research will be used for the study.

DATA COLLECTION: The appropriate data will be collected from Primary sources as well as Secondary sources.

- **PRIMARY SOURCES:** The study will be primarily based on primary data. For the collection of primary data, the researcher will frame a structured questionnaire in order to collect the relevant information which will be sent via mail across the India and only those respondents will be taken into consideration who will fulfil selection criteria.
- **SECONDARY SOURCES:** Secondary data will be collected from sources like studies published in national and international journals, websites and other relevant sources.

DURATION OF THE STUDY: For the purpose of the analysing investment decision of investors, 3 financial years (2020-21 to 2022-23) in which investment was made in stock market by the respondents will be taken into consideration.

SAMPLING TECHNIQUE: Purposive sampling technique.

SAMPLE SIZE: 500 respondents (Individual investors) will be the sample size of the study.

SELECTION CRITERIA: Respondents will be selected on the basis of following criteria-

- The respondent must have invested in the listed companies either in BSE or NSE during the selected period of study.
- The respondent should belong to income level i.e., annual income exceeds Rs. 2,50,000 or above to ensure that investor is financially capable of investing in the capital market.
- The age of the respondent should be 18 years or above.

STATISTICAL TOOLS: For the analysis of data, the researcher will use statistical tools such as Percentage analysis, Mean, Factor analysis, Regression and others will be used as per the need of the study.

TABLE 3: OBJECTIVE-WISE RESEARCH METHODOLOGY

S.NO.	OBJECTIVES	RESEARCH METHODOLOGY
1.	To identify the behavioural factors influencing the investment decisions of investors in the Indian Stock Market.	To achieve this objective, researcher will use the secondary data published in national and international journals on Indian stock market, different websites and BSE & NSE reports etc.
2.	To explore the impact of behavioural bias and rational factors on the investment decision of individual investors in Indian Stock Market.	For achieving this objective, questionnaire will be formulated by researcher. Factor analysis will be used to explore behavioural factors such as emotional, mental bias and rational factors such as return on equity, price changes of stock etc.
3.	To analyse the impact of Pandemic COVID 19 on the individual investor investment behaviour and their attitude towards risk.	For this purpose, researcher will frame a structured questionnaire. Regression and other statistical tools will be used to analyse the investor's risk attitude such as loss of income, ill-health, occupational changes tolerate level, expected or stable return etc.
4.	To find out the level of information and attitude differences in the perception of individual investors on factors influencing investment decision on the basis of demographic profile.	For this objective, researcher will frame a questionnaire and to know the investor's level of information & perception on factors such as past performance of the firm's stock, information obtained from internet etc. Chi-square test etc will be used to analyse the data.

5.	To examine whether demographic Characteristics and financial characteristics of investors determine their risk seeking behaviour.	To achieve this objective, researcher will frame structured questionnaire. ANOVA and other statistical tools will be used to know whether personal attributes (age, gender) & financial attributes (income, saving, investment) are associated with risk attitude of investors.

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